

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS  
RESTRICTIONS ON THE CONSULTATION WITH  
S P A I N

1. In accordance with its terms of reference, the Committee has conducted the consultation with Spain concerning the restrictions which are maintained on balance-of-payments grounds. The Committee had before it a basic document for the consultation (BOP/41) and a decision by the Executive Board of the International Monetary Fund (see Annex II), together with a background document supplied by the Fund, as mentioned in paragraph 3 below. At the consultation, the representative of Spain also submitted for the information of the Committee the Spanish Economic and Social Development Plan.

2. In conducting the consultation the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The consultation was completed on 3 November 1964. The present report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with Spain. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Spain. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision and background material from the last consultation with Spain under Article XIV of the Fund Agreement.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of October 16, 1964 taken at the conclusion of its recent consultation with Spain, and particularly to paragraph 5 which reads as follows:

'Some progress has been made in reducing import restrictions and discrimination, and reliance on bilateralism. The Fund considers that the over-all balance-of-payments position permits a substantial reduction of import restrictions, and believes that Spain should take energetic steps to terminate discriminatory practices and bilateral payments agreements.'

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its recent Article XIV consultation with Spain. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the Spanish representative

4. In his opening statement, the full text of which is annexed to this report, the representative of Spain described in broad outline the Spanish economy, with emphasis on its preponderantly agricultural character, notwithstanding the rapid development of industry which has taken place in recent years. He noted the resultant heavy dependence of Spain upon agricultural commodities for its export earnings and the uncertainty and difficulty which weather conditions and also foreign trade barriers place in the way of the development of Spain's foreign trade. At the same time, he noted, Spanish industry is much newer than that of many European countries, even though starts have been made in the establishment, modernization or expansion of various sectors. Consequently Spain has recently formulated an Economic and Social Development Plan designed to foster a still more intensive development of industry, and while this Plan should eventually enable Spain to export a variety of products, its immediate effect is to increase Spain's import requirements without providing additional exports.

5. Consequently Spain still maintains some quantitative restrictions, especially as various other sources of foreign exchange earnings are regarded as somewhat uncertain, notably tourism, remittances from emigrants and long-term capital inflow. Currently, these receipts, along with receipts from exports, more than cover present imports, but imports are expected to grow rapidly under the impetus of the Development Plan, while exports are likely to continue to stagnate for the time being. Since 1960 imports have grown by 257 per cent while exports have grown by only 6 per cent.

6. The Spanish Government nevertheless has the desire and purpose to continue to eliminate gradually existing quantitative restrictions on imports. Their purpose is evidenced by eight liberalization lists which have been issued, the rapid growth in the size of global quotas and a whole series of tariff measures which include in some cases complete suspension of duties. The Government of Spain has continued to accord these benefits to imports, notwithstanding the sensitivity of certain competing Spanish industries, as rapidly as conditions giving rise to restrictions have been overcome.

Balance-of-payments position and prospects

7. The Committee acknowledged that Spain's balance of trade as such is unfavourable but it was emphasized that the balance of payments as a whole was the most important consideration in this consultation. It was noted that Spain's gold and foreign exchange reserves as of July 1964 were \$1,313 million (equal to seven months' imports). In the light of the over-all position it was felt that Spain might make considerable further progress toward dismantling restrictions and that progress up to now has been too slow for Spain's own best interest. Restrictions, it was noted, tend to shelter high-cost industries and to remove the necessity for them to become competitive without delay. There is even danger that new uncompetitive industries may be established. Spain's intention to complete the removal of restrictions was noted and Spain was asked for more definite indications concerning timing of further moves.

8. The representative of Spain replied that he could give no definite reply at this time, though no one was more interested than Spain herself in rapid liberalization. He understood that a new liberalization list was being prepared. As to Spain's reserves, he described these as having been obtained largely from non-commercial sources. Tourism, for example, could decline in various circumstances, of which perhaps the most important was the possibility that Spain might cease to enjoy the reputation of a country where prices were relatively low. Emigrant remittances could not be counted on to continue at present levels over a long period of time, as emigrants tend to send for their families to follow them out of Spain and, in any case, remit little or nothing after they have been away from Spain for a long time. Emigration might also decline as more and better jobs were provided in Spain. As for long-term capital receipts, which had been an important source of foreign exchange, this flow could not be counted on beyond a time when transferability of capital and earnings could be guaranteed. Finally, some industries do need protection, though Spain is making efforts to ensure that new industries are established only on a scale large enough to be economically viable. He urged that the Committee not forget the great progress made since 1959, when the liberalization process began, and stressed the need for care, so as to avoid having to regress later.

9. It was noted, at this point, that when the time came when there was no migration from Spain, if it did, that would imply a quite different internal situation in Spain in which the manpower remaining in Spain would presumably be engaged in additional production, including production of exports. Optimism was also expressed concerning the continuation of a substantial tourist trade such as France and Italy still enjoy. Some doubt was expressed as to whether over the last four years imports into Spain had increased as much as might appear from the statistics, in view of the fact that there had been widespread undervaluation of imports on invoices, which had only very recently been brought to an end. At the same time, there appeared to be no reason to doubt that the liberalization programme had been responsible for an increase in imports, especially in capital equipment goods. It was also noted that, notwithstanding ambiguous wording in the basic document, it is the need for net capital receipts, not total foreign exchange reserves, which is estimated at between \$280 million and \$387 million in the

years 1964-67; this estimate includes all foreign investment in Spain, both portfolio and direct, and whether supplied privately or by governments or by intergovernmental institutions, but it does not include commercial credits. There was a brief discussion of recent improvements in some of Spain's leading exports, which are agricultural products, but the representative of Spain maintained that this could not be regarded as more than the upswing of a trade that is notable for its cyclical tendencies, even though Spain is doing all it can to promote exports by such measures as market surveys, provision of export credits and other measures short of subsidization.

#### System and methods of the restrictions

10. Various members of the Committee put questions to the representative of Spain concerning the working and status of restrictive measures. This information is summarized below.

11. Temporary export duties, which were imposed in 1959, have all been removed with the exception of that on olive oil, which is the only export duty of any kind. There is no legislation of general application concerning floor prices. Until 1964, Spain had no anti-dumping legislation so that interventions by customs officials on grounds of suspected dumping may have given rise to the mistaken notion that Spain maintained floor prices, but this is not the case. The pertinent question in suspected dumping cases is the relationship of the export price to the international prices or to the price of the same merchandise in the country of origin. Currently, Spain also imposes a countervailing duty to offset subsidies; this levy is equivalent to the subsidy granted on the export of the product, and is not higher than was the level of the fiscal tax which was formerly in effect.

12. It was confirmed that the importation of wool is completely liberalized, and not subject to any State trading. The General Food Supply Board is a government trading organization and not an industry board. Its purchases are made from other countries on a competitive auction basis, which is non-discriminatory as to country of origin, except in the case of purchases from State-trading countries. Amounts purchased are designed to meet Spanish consumption needs taking account of expected domestic production, but the object is often to keep prices down, though support occurs in some instances. It is only on a select range of products that this Board is concerned with stabilizing prices on the domestic market. Besides wheat, sugar and tobacco, of which the domestic crop is entirely purchased by the State organization, there are some stabilization purchases of rice, barley, oats, cotton and olive oil. Import operations in these cases are designed primarily to supplement domestic production and to control prices, though imports are sometimes restrained in this connexion. Beyond the major products for which stabilization operations are carried out, food prices find their levels without State intervention.

13. There was a discussion of Spain's import system in which it was established that Spain has liberalized about 60 per cent of her imports from a long list of countries and has undertaken to increase global quotas by at least 20 per cent per year. In this connexion, it was noted that actual import authorizations under global quotas have very considerably exceeded the announced global quotas. In 1963 they were nearly three times the total of the quotas. The Committee therefore considered that it was of great importance that the Spanish

Government accelerate the increase in global quotas to the fullest extent possible in the period just ahead in order to help give effect to the Fund finding that Spain's overall balance-of-payments position permits a substantial reduction of import restrictions. The Committee also noted that the amount of liberalization which has been achieved means that 40 per cent of trade remains subject to global quotas or to individual licensing. One, but only one of the 840 items liberalized, has been deliberalized. If some of the trade still subject to quotas is de facto liberalized, as indicated by the representative of Spain, this should, in the view of the Committee, make it easier for Spain to effect formal liberalization of such items. The representative of Spain took note of this comment. The Committee also considered that the mere fact that Spain's imports have increased was no guarantee that the remaining quantitative restrictions cause no serious obstacles to normal trade. It was consequently urged that Spain move items to the free list as rapidly as possible and meanwhile establish or increase global quotas and exceed them wherever possible.

14. With respect to trade subject to individual licensing, the representative of Spain explained, in response to a question, that the increase in imports authorized under individual licenses in 1963, shown on page 82 of the Fund background paper, does not mean that any items have been removed from global quota and does not reflect an increase in bilateral trade, since the individual licensing system applies to imports subject to individual licensing, whether they are covered by bilateral agreements or not, as explained on page 55 of the Fund document. The Committee urged Spain to establish global quotas for as much of this trade as possible in those cases in which liberalization was not yet possible.

15. In response to several questions, the representative of Spain explained that he wished to present a supplemental statement on Spain's bilateral agreements. Out of the twenty-four bilaterals still maintained, seven are with countries having centrally-planned economies; these are countries with which Spain does not even have political relations, so that these agreements between central banks provide the only framework for trade. An eighth agreement is also with a non-GATT country with which Spain has no political relations. Of the remainder, eight are with non-GATT countries and do not contain any purchase commitments or binding quotas concerning commodities to be purchased or sold; these agreements to some extent provide the equivalent of a most-favoured-nation commitment which would not otherwise exist. Of the others, two are with countries which trade only through State-trading enterprises and the five others have no bilateral quotas but contain only indicative lists. During the discussion it was also indicated that there are no binding quotas or purchase commitments in any bilateral agreement affecting purchases by Spain of wool, wheat or cereals. As indicated by the list of countries which may trade under the liberalization list and participate in global quotas, on page 7 of the basic document, Brazil, Pakistan and Tunisia, which are bilateral agreement countries, also figure among countries eligible for liberalized treatment. Nevertheless, the Committee noted that a substantial part of Spain's trade is still under bilateral agreements and that such agreements are not absolutely necessary to the conduct of trade even with centrally-planned economies; attention was called to the Fund recommendation that Spain take energetic steps to terminate discriminatory practices and bilateral payments agreements.

Effects of the restrictions

16. The Committee considered that in its earlier discussions with the representative of Spain most of the points which members wished to make concerning effects of the restrictions had already been made. The intention of the Spanish authorities to eliminate existing quantitative restrictions and to give effect to full liberalization was noted and welcomed. It was felt however that the remaining restrictions may have more restrictive effect than was reflected in various statements in the basic document. Reference was made to the advantage for Spain of liberalization as a guarantee that new and existing industries would be obliged to keep their costs competitive, and a move in this direction would be the best insurance that the development programme on which Spain has embarked would succeed in raising Spanish production and in providing more, and more profitable, employment opportunities and a revival of Spain's export trade. One member of the Committee noted his country's sympathy for the difficulties involved in eliminating restrictions and discrimination when a country has not yet completed its own development programme, although he also noted that his own country had suffered from the effects of the Spanish restrictions.

General

17. The Committee thanked the representative of Spain for the full and frank replies which had been given to its questions. It expressed confidence that Spain's balance-of-payments situation would continue to benefit from substantial invisible receipts, especially from tourism and emigrant remittances, and felt that the principal danger against which Spain needed to guard in implementing its development programme was that of an unduly high cost structure in its new industries and in those in the course of expansion. The maintenance of such a cost structure would of course be favoured by the retention of import restrictions. It therefore urged Spain to implement its promise to eliminate import restrictions as rapidly as possible and in the meantime, as a minimum, to establish global quotas where full liberalization was not immediately possible. It would be important also that authorizations to import under global quotas and individual licensing should continue to rise. It was also urged that Spain should rely on the customs tariff to provide shelter for developing Spanish industries rather than upon quantitative restrictions. The Fund's assessment cited in paragraph 3 above was noted both as to reduction of import restrictions and as to the need for energetic steps to terminate discrimination and bilateral agreements. The Committee received assurance that Spain would consult with the CONTRACTING PARTIES next year if the balance-of-payments situation should require the maintenance of restrictions on imports.

18. The representative of Spain thanked the Committee and promised to convey to his Government the suggestions and comments that had been made. He felt that the Committee might have been over-optimistic in suggesting that Spain could liberalize all its imports within the year, but affirmed that his country was most anxious to advance in that direction as rapidly as conditions permit.

ANNEX IOPENING STATEMENT BY THE REPRESENTATIVE OF SPAIN

Today it is Spain's turn to consult with the GATT Committee on Quantitative Restrictions. My Government wishes to explain the economic circumstances which account for the existence of a small and diminishing number of import restrictions which it is considered necessary to maintain for the time being but which we hope will gradually disappear over the relatively short period of time which the Spanish economy needs in order to regain equilibrium and implement the Development Plan which is at present being carried out; for the fulfilment of the Plan is essential if, as stated in its objectives, we wish to continue to raise the standard of living of the Spanish people and promote the industrial development of my country.

Without going into the details or the historical background of the import restrictions now in effect in Spain, since this aspect is explained and commented upon in the report before the Committee, I should like to add a few clarifications or remarks which may supplement or explain the conclusions of the report, in particular with respect to the justification for the maintenance of these obstacles to my country's external trade.

For a full appreciation of the Spanish economy as a whole one must single out a few fundamental principles, among which the most outstanding are the following:

1. Spain is basically an agricultural country, at least for the time being.
2. Spain is a country whose industry is obviously more backward than that of other countries, whether in Europe or other continents, which are usually referred to as developed or industrialized countries.

I should like to refer in more detail to the two principles just mentioned.

Spain is one of those old nations of the Mediterranean basin where the cultivation of fruit, vines, olives and cereals has traditionally been and still is the main source of wealth.

Out of the earnings which make up the national income of my country, agricultural earnings amounted in 1961 to 151,530 million pesetas, or \$2,525 million, while industrial earnings amounted to 173,700 million pesetas, equivalent to \$2,895 million. Our total national income in that year was 555,130 million pesetas, equivalent to \$9,252 million, so that clearly agriculture constitutes an important percentage.

If one compares these figures with equivalent figures for the industrialized countries, it is easy to see agriculture is of great importance in the Spanish economy, and this is also clear if one examines the question from the demographic aspect, which yields the following data:

Agricultural population in 1950:	5,271,000 persons = 48.8 per cent
Industrial population in 1950:	2,709,000 persons = 25.1 per cent

In other words, almost half of the active population of the country earned their living from agriculture and only one fourth from industrial activities.

From 1950 until now our industrial effort has been tremendous, especially if one considers the many difficulties which had to be overcome, due in particular to the shortage of foreign exchange. Yet despite this increase in our industrial production, by 1960 the active population was as follows:

Agricultural population in 1960:	4,789,000 persons = 41.3 per cent
Industrial population in 1960:	3,641,000 persons = 31.4 per cent

This means that despite the gradual transformation of the Spanish economy, the agricultural population is still much larger than the industrial population and is beyond comparison in number and importance with that of the fully industrialized countries.

All this brings us to the conclusion that Spain is still an agricultural country for the time being and this statement is borne out by the structure of our export trade which is naturally conditioned by that principle.

The statistics for 1963 show that 53.48 per cent of our exports consisted of agricultural products which form the basis of our foreign shipments, comprising commodities which fall within the first twenty-four chapters of the Tariff Nomenclature. Among these the most important are the following: citrus fruit (oranges, tangerines, clementines, grapefruit and lemons), olive oil, olives, apricots, artichokes, rice, onions, plums, preserved fish, preserved vegetables, preserved fruit, cork, cut flowers, green beans, lettuce, melons, early potatoes, fresh and frozen fish, pears, bananas, tomatoes, grapes, raisins, wine and fruit juice.

This means that at present Spain's exports continue to be unpredictable, for in each crop year the volume of exports depends primarily on weather conditions. But our obstacles and difficulties are not only those which Nature places in the way of our natural growth and development.

There are other obstacles which, though less serious than a year of drought or frost, can nevertheless determine the success or failure of a crop year. I refer specifically to the tariff and non-tariff barriers which many developed countries apply to our exports of agricultural products; among these I may mention the following as being the most characteristic: seasonal duties, preferential customs treatment, import permits which almost constitute import prohibition because these are perishable goods, import quotas, non-tariff charges and taxes which are often higher than the normal duties, minimum price regulations, State trading, import time-tables, the awarding of purchases to



private sectors or undertakings, excessively strict requirements for health certificates, quality standards and marking regulations which are unduly strict, subsidies and support measures for domestic production, and in some cases even the prohibition of imports.

I shall not discuss the unquestionable right of each country to support its farmers and raise their standard of living, which is generally lower than that of the industrial population; I wish merely to note a certain fact whose present relevance is absolutely clear, namely that Spain, whose agricultural specialization is partly determined by geophysical circumstances, is prevented from progressing along this path and finds that the great and generous GATT principles of freedom of trade are paralyzed by a whole series of difficulties deriving from agricultural protectionism which most of the industrialized countries have put in the way of free trade in agricultural products throughout the world.

Let us now turn to the second point, or the second issue which I mentioned, namely the incomplete industrial development of Spain. Since 1939 my country has continually been striving to improve the standard of our heavy and light industries. Ours is a country which, to use the GATT wording, is among the countries "the economies of which are undergoing a process of industrialization to correct an excessive dependence on primary production".

This means that although spectacular progress has been made in some sectors, including electric power, cement, and fertilizers, and new industries have been established, such as transport equipment, chemicals, electronic industries and various types of machinery, Spain's industry has had to overcome many adverse factors in creating and developing its structures because of the recent establishment of those industries and their initial difficulties; such factors include the shortage of foreign exchange for purchasing capital goods and raw materials, the absence of aid and technical co-operation from abroad, and in the early stages the lack of specialized technical personnel. As a result of all this, and I am speaking in general terms, our industry is still not yet in a position to face competition from other industrialized countries whose structures have been developing steadily over many decades.

The immediate objective of the Development Plan, which I have already mentioned, is to remedy to a great extent the situation of Spain's industry which, by 1967, will have made great steps towards aligning itself with foreign industry; there is no doubt, however, that for the time being its development depends on the maintenance of certain protective measures to ensure the necessary stability for our balance of payments so that plans for industrial expansion can be implemented, while permitting the regular purchase of capital goods and raw materials necessary for such expansion.

Those, then, are the fundamental reasons why Spain still maintains some quantitative import restrictions which, as I have already indicated, will disappear as our economy becomes stronger and more dynamic. It must be borne in mind, moreover, that if any one of the equilibrating factors in our balance of payments - namely tourism, remittances from emigrants, and long-term investments - were lacking (and this is always possible because of the unpredictable character of such sources of earnings), neither agricultural exports, which are impeded by the series of obstacles which I have mentioned, nor our small shipments of industrial products would be able to supply the necessary foreign exchange to cover Spain's present import needs; our export earnings would not even suffice to cover 50 per cent of our present purchases abroad, not to mention our future requirements, which are likely to be far larger than our present needs if, as we hope, imports continue to grow at the same rate as in the past few years, and this, in principle, should result from the implementation of the Economic and Social Development Plan for 1964-1967 which is essential for the future of my country.

The imbalance created in the Spanish economy by the growth of imports and the stagnation of our exports, for the reasons I have already indicated, is explained in greater detail in the report. I would merely like to mention one specific fact in terms of figures which make any comment unnecessary. From 1960 to the present time, imports have grown by 257 per cent and exports by 6 per cent. I think those figures speak for themselves.

Despite all the reasons already mentioned, it is still my Government's desire and intention gradually to eliminate the remaining quantitative import restrictions. This intention is evidenced by the publication of eight liberalization lists covering products of all types, including some which were under State trading, for example, wool, tallow, dried vegetables and newsprint, together with the growing increase in the volume of global quotas and a series of tariff advantages which, in some cases, go as far as the total suspension of customs duties. The GATT secretariat has been informed of all these measures. I should like to refer in particular to two measures adopted by my Government, because of their importance and because they are of recent date. First of all, Decree 2580/1964 of 18 August last which abolished the countervailing duties on tariff items 73.01 B1 and B2 (blooms and billets, slabs and sheet bars, respectively), and secondly Decree 3082/1964 of 8 October last which removed the countervailing duties on tariff items 31.02 D, 31.02 E, 31.02 F, 31.02 G, 31.02 H, 31.02 I and 31.02 J (ammonium nitrate, ammonium sulphate, ammonium sulphonitrate, calcium cyanamide, urea, mixtures of ammonium nitrate, and other nitrogenous fertilizers mentioned in paragraphs B, C and D of the explanatory notes on this item in the Brussels Nomenclature. Although this affects Spanish industries which are highly sensitive to foreign competition, my Government did not hesitate to eliminate these restrictions as soon as the abnormal circumstances which had led to their establishment had disappeared.

I shall say no more, gentlemen. I would ask the Committee and its distinguished Chairman to examine the report which my country has submitted with the comprehension and fair judgment which it has always shown. For this I thank them, and on behalf of my country I should like to reiterate Spain's desire to contribute to its fullest ability to the development of international trade.

ANNEX II

International Monetary Fund Executive Board Decision  
Taken at the Conclusion of the Fund's Consultation  
with Spain on 16 October 1964

1. The Government of Spain has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. The Spanish economy continued to grow rapidly in 1963 and the beginning of 1964. Important advances were made in each of the main sectors of the economy. Under a four-year Development Plan launched in January 1964, the economy is expected to expand at an average annual rate of 6 per cent. To facilitate the attainment of the objectives of the Plan, a tax and a banking reform are being implemented. The Fund welcomes these steps which are designed to insure the growth of the economy in conditions of monetary stability. It urges the adoption of measures designed to achieve a rapid increase in productivity.
3. An excessive monetary expansion early in 1963 was successfully curbed. Some pressures on prices, however, remained and there was a further sharp increase in wages. In view of the expected growth in the liquidity of the banking system during the second half of 1964, the Fund welcomes the statement of the authorities that they will keep the monetary situation under careful review and are prepared to take prompt action when needed. Efforts should be made to keep to the minimum the deficit in the public sector.
4. Despite a worsening of the current account balance of payments in 1963, there was a further increase in Spain's gold and foreign exchange holdings, mainly due to continued capital inflow. A considerable improvement in the current account during the first half of 1964, due in part to a sharp rise in exports, was accompanied by further capital inflow, and gold and foreign exchange holdings attained a level corresponding to about seven months' imports. The Fund stresses the importance of policies which, by increasing the competitiveness of Spanish exports, would improve the trade position during the period of the Plan.

5. Some progress has been made in reducing import restrictions and discrimination, and reliance on bilateralism. The Fund considers that the over-all balance of payments position permits a substantial reduction of import restrictions, and believes that Spain should take energetic steps to terminate discriminatory practices and bilateral payments agreements.
6. In concluding the 1964 consultations, the Fund has no other comments on the transitional arrangements maintained by Spain.